HONORABLE KAREN A. OVERSTREET

Hearing Date: Monday, September 15, 2014
BEFORE THE HON. TIMOTHY W. DORE
Hearing Time: 10:00 a.m.
Location: Seattle, Courtroom 8106
Response Deadline: Time of Hearing
[ORDER SHORTENING TIME PENDING]

UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF WASHINGTON AT SEATTLE

In Re ARCHER USA INC., Debtor.	Chapter 11 Case No. 14-16659-kao
In Re LENCO MOBILE, INC., Debtor.	Case No. 14-16660-kao DECLARATION OF MATTHEW HARRIS IN SUPPORT OF FIRST DAY MOTIONS

Matthew Harris declares as follows:

1. I am the Chief Executive Officer and a member of the Board of Directors of Archer USA Inc. ("Archer USA") and Lenco Mobile, Inc. ("Lenco"), each of which is a debtor-in-possession in their respective cases captioned above. I make this declaration based on my personal knowledge and my review of the business records and files of Archer USA and Lenco and I am competent to testify to the same.

2. On September 6, 2014, Archer USA and Lenco each filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. Archer USA is a wholly-owned subsidiary of Lenco.

CORPORATE HISTORY AND EVENTS LEADING TO BANKRUPTCY

3. Lenco is a mobile technology company, incorporated in Delaware and headquartered in Seattle, Washington. Through its operating subsidiaries, Lenco does

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business in North America, Africa and Asia. Lenco's two largest operating companies are (1) Archer Mobile South Africa Pty Ltd ("Archer South Africa"), a South African corporation located just outside Johannesburg, South Africa; and (2) Archer USA, with offices in Seattle and San Jose.

4. Lenco is an early stage business in the rapidly changing mobile technology industry. Across all of its companies and affiliates, Lenco employs approximately 90 people, with Archer South Africa constituting its largest office.

5. Lenco is a public company, traded over the counter, with a shareholder base of fewer than 1,000 shareholders.

6. Lenco, through its subsidiaries, builds and sells integrated mobile engagement solutions in three market segments: healthcare, financial services, and marketing. The solutions are a combination of technology and services intended to assist enterprises engage with their patients, customers and prospects, primarily through delivery of content to mobile phones through messaging and applications. The solutions address a wide variety of business problems. For example: the *patient engagement solution* ensures patients show up, ready and on time, for a surgery and remember to take their medications; the *financial services solution* delivers bank statements and tax bills to mobile phones for customers in the developing world; the *marketing solution* delivers loyalty coupons to be redeemed at your local coffee store.

7. Over time, Lenco and its subsidiaries have acquired a number of large customers, including Microsoft, Starbucks, ABC, Novo Nordisk, Standard Bank, Citibank, American Eagle Outfitters, and the City of Johannesburg.

8. The company as it exists today is the product of the December 2011 merger of Lenco and Archer USA (which was, at that time, iLoop Mobile Inc.). Lenco was operating in Africa and Asia; Archer USA was operating in North America. Upon the merger, Lenco appointed me as CEO of Lenco, at which point we made the decision to move Lenco's

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corporate headquarters to Seattle Washington. With the help of several key board members, I built an executive team in Seattle that went about the complex task of integrating the various operations of the Lenco subsidiaries.

9. At the time of the merger, each of the two companies, Lenco and Archer USA, were undercapitalized. Six months earlier, at the time the companies agreed to merge, Lenco set out to raise approximately $55 million. The initial plan was to pay the Archer USA shareholders $38 million, and fund Lenco's working and growth capital needs with the remaining $17 million. Lenco failed in its effort to raise capital, though, and ultimately the Archer USA shareholders accepted stock instead of cash and the merged company launched with substantial unmet capital needs. Over the course of the next two years, Lenco raised capital through several debt and equity offerings. The obligations incurred by Lenco included a $4 million round of debt in July and August 2012 (the "2012 Loans") and a $2 million round of debt in 2013 (the "2013 Loans"). During the months immediately before filing the voluntary petitions for Lenco and Archer USA, Lenco and Archer USA were undercapitalized and experienced cash shortfalls resulting in non-payment to various creditors, including employees. During the summer, the company, on a continuous basis, reviewed its restructuring options, including seeking voluntary relief under Chapter 11 of the Bankruptcy Code.

10. On September 4, 2014, several of the 2012 noteholders (the "2012 Lenders") informed me that absent repayment of the 2012 Loans in the cumulative amount of $750,000, these lenders intended to file a petition for involuntary bankruptcy in Delaware. On September 6, 2014, after lengthy discussion and with the benefit of advice of outside professionals, the Boards of Directors of both Lenco and Archer USA, consisting of Jorgen Larsen, Michael Matthews and me voted unanimously to file voluntary petitions for relief under Chapter 11 of the Bankruptcy Code.

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LOAN OBLIGATIONS AND PURPORTED SECURITY INTERESTS

11. As described above, in July and August 2012, Lenco became obligated to various individuals and entities under the terms of a Note Purchase and Security Agreement (collectively, the "2012 Agreements"). Obligations owed by Lenco to the 2012 Lenders under the 2012 Agreements were evidenced by twenty separate promissory notes (the "2012 Notes") with varying maturity dates. The first maturity date under the 2012 Notes was July 15, 2014.[1]

12. In June 2013, Lenco became obligated to five individuals and entities under the term of a different Note Purchase and Security Agreement (collectively, the "2013 Agreements"). Obligations owed by Lenco to the 2013 Lenders under the 2013 Agreements were evidenced by five separate promissory notes (the "2013 Notes"), each of which mature on January 15, 2015.[2] The 2012 Agreements and 2013 Agreements are collectively referred to as the "Initial Agreements." The 2012 Notes and 2013 Notes are collectively referred to as the "Notes." The 2012 Lenders and 2013 Lenders are collectively referred to as the "Lenders."

13. To secure obligations due to Lenders under the Notes, Lenco purported to grant the Collateral Agent (as that term is defined in the Agreements) "a security interest in all of the Collateral." (Initial Agreements, Section 3.1.) No other granting language was included in the Notes or Initial Agreements. However, none of the subsidiary entities, including without limitation Archer USA and Archer South Africa, executed the Agreements and Lenco was not authorized as an agent of Archer USA or Archer South Africa to grant security interest or transfer ownership in the assets of such subsidiaries.

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[1] The following persons and entities comprise the "2012 Lenders": Pablo Enterprises, LLC, Bradford C. Berk, Paul Michael & Kathleen Bower, Bob Chiumento, Kenneth R. Jensen, Srinvas Kandikattu, Michael Levinsohn, James L. Liang, Rich Moore, Kjetil Skogsholm, Principal AS (Roar Hausner), Edward S. Brokaw, Robert B. Corman, James D. Meadlock Trust, Edwina S. Millington, Walter Harrison, Chris Dukelow, Matthew Harris, and State Bank and Trust Trustee F/B/O Derace L. Schaffer IRA rollover.

[2] The following persons and entities comprise the "2013 Lenders": Pablo Enterprises, LLC, Robert Kaufman, Matthew Kinley, James L. Liang, and Derace Shaffer.

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14. Pursuant to late filed UCC-1's (see ¶ 16 below), the Collateral purportedly securing the Notes includes, among other things, all of Lenco's and its wholly owned subsidiaries property and rights in and to property, including all accounts, instruments, chattel paper, deposit accounts, documents, general intangibles, goods (including inventory, equipment and fixtures), money, letter of credit rights, supporting obligations, intellectual property, investment property and commercial tort claims. To my knowledge, no person or entity has been named as "Collateral Agent."

15. Lenco has not delivered shares for any subsidiary to any individual Lender as security for the Initial Agreements.

16. Although the Initial Agreements were executed in 2012 and 2013, the Lenders did not file UCC-1 financing statements evidencing the security interests purportedly granted to the Collateral Agent in the Initial Agreements by Lenco until June 9, 10 and 17, 2014.[3]

17. On or around August 22, 2014, Archer USA entered into a Loan Agreement (the "Bridge Loan Agreement") with Hope Street Advisers, LLC as agent for James L. Liang, Bruce K. Anderson, Derace Shaffer and Robert Kaufman (the "Bridge Lenders"). To secure Archer USA's obligations to the Bridge Lenders under the Bridge Loan Agreement, Archer USA granted a first priority lien and security interest in all of Debtor's now existing or hereafter acquired right, title and interest in and to the collateral described in the Security Agreement dated August 22, 2014.

18. I understand the Bridge Lenders filed UCC-1 financing statement(s) evidencing the security interests purportedly granted to the Bridge Lenders on or about September 5, 2014.

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[3] On June 9, 2014, the following Lenders filed UCC-1 Financing Statements: Matthew R. Harris, Edward S. Brokaw, Robert B. Corman, Walter Harrison, James D. Meadlock Trust and Edwina S. Millington. On June 10, 2014, UCC-1 financing statements were filed by Pablo Enterprises, LLC, James L. Liang and Derace L. Shaffer. Thereafter, on June 17, 2014, UCC-1 financing statements evidencing security interests purportedly granted by Archer USA, Inc. to Pablo Enterprises, James L. Liang and Derace L. Schaffer.

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SALES AND FINANCING EFFORTS

19. Debtors are engaged in ongoing efforts to locate a capital provider and/or purchaser for certain assets of Archer USA, as well as Archer South Africa (Lenco's wholly owned subsidiary in South Africa).

20. One of the primary assets and sources of revenue for Lenco's wholly-owned subsidiary, Archer USA, is its North American marketing services business ("Marketing Services"). The Marketing Services business consists of an integrated mobile messaging platform, contracts with a number of large customers, partnerships with several large marketing services firms, vendor contracts, and a sales, marketing, services and technical team. Archer USA is in the process of divesting this business and has received multiple bids for it. One bidder has executed an letter of intent and is in the process of completing its due diligence and drafting definitive agreements. After Archer USA filed its voluntary petition, a prior bidder reiterated its interest in acquiring the Marketing Services business. The company anticipates completing the divestiture of Archer USA's Marketing Services business by mid-November 2014.

USE OF CASH

21. I have reviewed the Declaration of Douglas Durst in Support of First Day Motions and the Cash Budget attached thereto as Exhibit A. Archer USA requires the immediate use of the Cash as proposed in the Cash Budget (the "Cash") to minimize disruption to and avoid termination of its operations, which would result in immediate and irreparable harm to Archer USA's business and imperil any potential sale of its Marketing Services asset.

22. Without access to the Cash, Archer USA will be unable to meet its current working capital needs, pay ongoing ordinary course expenses including payroll and commissions, pay payroll and other taxes, obtain goods and services, meet customer obligations, obtain continued trade credit, and attract new business, all of which will severely

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and irreparably damage its business and the going concern value thereof. Archer USA therefore has an immediate and crucial need for access to the Cash to avoid any interruption in the flow of essential services. At this point in time, Cash is the only available source of funds to meet such needs.

I declare under the penalty of perjury under the laws of the State of Washington that the foregoing is true and correct.

EXECUTED at Seattle, Washington this 10th day of September, 2014 by Matthew Harris.

<u>/s/ Matthew Harris</u>
Matthew Harris

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